



# Economics Weekly June 3, 2014

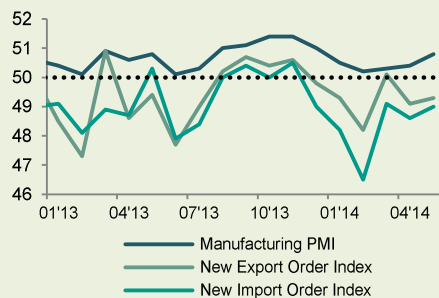
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Exhibit 1: May economic indicators

YoY% or otherwise specified	May'14*	Apr'14	Consensus
PMI (Manufacturing)	50.8	50.4	50.7
PMI (Non-Manufacturing)	55.5	54.8	--
CPI	2.2	1.8	2.3
PPI	(1.7)	(2.0)	(1.5)
Exports	5.5	0.9	6.6
Imports	7.2	0.8	6.8
Trade Balance (US\$/bn)	18.8	18.5	21.45
FAI (YTD%)	17.4	17.3	17.1
Industrial production	8.9	8.7	8.9
Retail Sales	12.4	11.9	12.3
M2	13.4	13.2	13.2
New loans (RMB/bn)	820	774.7	765
Aggregate financing (RMB/bn)	1246.5	1,550	--

\* Forecast (excluding PMI -Manufacturing & Non-Manufacturing)  
Source(s): Bloomberg, ABCI Securities

Exhibit 2: China's manufacturing PMI (%)



Source(s): Bloomberg, ABCI Securities

## Strong PMI signals recovery on track

China's May manufacturing PMI stays upbeat to reach 50.8, higher than the consensus of 50.7 and exceeding April's 50.4. New orders PMI continued rebounding, climbing from April's 51.2 to May's 52.3, confirming that the economy is gaining traction after the slowdown in 4M14. The latest PMI demonstrates a stabilizing macro trend, and we believe China's economic indicators for May would improve. We expect the Chinese government would implement more proactive targeted measures to strengthen the economy.

**Mild pricing pressure in sight.** Amid the slowdown in economic activities and moderation of food prices in the past few months, we believe CPI inflation would edge up slightly to 2.2% YoY in May. Continuous improvement in manufacturing PMI signals the start of a restocking cycle, which enhances manufacturers' pricing power. Negative growth in PPI is expected to further lessen to 1.7% YoY.

**External trade sector shows signs of recovery.** New Export Order Index and the New Import Order Index, sub-indices of the manufacturing PMI, advanced to 49.3 and 49.0 in May, versus 49.1 and 48.6 in April. This resonates with the HSBC China manufacturing PMI (new export orders) in May that indicates a pick-up in external trade. We anticipate that export and import would grow by 5.5% and 7.2% YoY, while trade balance would reach US\$ 18.8bn for May.

**FAI growth to rise slowly.** China's 4M14 FAI growth at 17.3%, the lowest level in recent years, has dragged down the pace of economic recovery. As China remains generous in its FAI budget for infrastructure investment in 2014, we believe FAI growth would stabilize and forecast 5M14 FAI growth would improve to 17.4% YoY.

**Industrial production growth is likely to accelerate.** Continuous uptrend in production PMI provides a strong support for industrial production. Acceleration in inventory restocking would also provide another push to production in coming months. We expect industrial production for May to grow by 8.9% YoY.

**Retail sales will steadily improve.** The government's effort to rein in lavish spending may continue to reduce consumption and growth in retail sales is likely to stay at 12%-13%. Supported by May's Golden Week holiday, we expect retail sales to go up by 12.4% YoY for the month.

**M2 growth, new loans and aggregate financing to rise gradually.** The PBOC's prudent approach in liquidity management and the government's policy to restore a healthier credit growth remains intact. As the PBOC conducted smaller-than-expected amount of repos in recent weeks, higher liquidity in the financial system would help alleviate the impacts of funds outflow driven by corporate tax payments and support economic recovery. We believe May's monetary indicators will improve. New bank loans would rise to RMB 820bn; aggregate financing will grow by 5% YoY to reach RMB 1.25tr; and M2 growth will expand to 13.4% YoY.



China Economic Indicators

	2013									2014				
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May*
Real GDP (YoY%)	---	---	7.5	---	---	7.8	---	---	7.7	---	---	7.4	---	--
Export Growth (YoY%)	14.7	1.0	(3.1)	5.1	7.2	(0.3)	5.6	12.7	5.8	10.6	(18.1)	(6.6)	0.9	5.5
Import Growth (YoY%)	16.8	(0.3)	(0.7)	10.9	7.0	7.4	7.6	5.3	6.5	10.0	10.1	(11.3)	0.8	7.2
Trade Balance (USD/bn)	18.2	20.4	27.1	17.8	28.5	15.2	31.1	33.8	32.3	31.9	(23.0)	7.7	18.5	18.8
Retail Sales Growth (YoY%)	12.8	12.9	13.3	13.2	13.4	13.3	13.3	13.7	13.6		11.8	12.2	11.9	12.4
Industrial Production (YoY%)	9.3	9.2	8.9	9.7	10.4	10.2	10.3	10.0	9.7		8.6	8.8	8.7	8.9
PMI - Manufacturing (%)	50.6	50.8	50.1	50.3	51.0	51.1	51.4	51.4	51.0	50.5	50.2	50.3	50.4	50.8
PMI - Non-manufacturing (%)	54.5	54.3	53.9	54.1	53.9	55.4	56.3	56.0	54.6	53.4	55.0	54.5	54.8	55.5
FAI(YTD) (YoY%)	20.6	20.4	20.1	20.1	20.3	20.2	20.1	19.9	19.6		17.9	17.6	17.3	17.4
CPI (YoY%)	2.4	2.1	2.7	2.7	2.6	3.1	3.2	3.0	2.5	2.5	2.0	2.4	1.8	2.2
PPI (YoY%)	(2.6)	(2.9)	(2.7)	(2.3)	(1.6)	(1.3)	(1.5)	(1.4)	(1.4)	(1.6)	(2.0)	(2.3)	(2.0)	(1.7)
M2(YoY%)	16.1	15.8	14.0	14.5	14.7	14.2	14.3	14.2	13.6	13.2	13.3	12.1	13.2	13.4
New Lending (RMB/bn)	792.9	667.4	860.5	699.9	711.3	787.0	506.1	624.6	482.5	1,320	644.5	1,050	774.7	820.0
Aggregate Financing (RMB bn)	1,762.9	1,187.1	1,037.5	819.1	1,584	1,411.3	864	1,226.9	1,232.2	2,580	938.7	2,081.3	1,550	1,246.5

\* Forecast (Excluding PMI - Manufacturing & PMI - Non-manufacturing)

World Economic/Financial Indicators

Equity Indices				Global Commodities				Bond Yields & Key Rates		
	Closing price	Chg. WTD (%)	P/E	Unit	Price	Chg. WTD (%)	Volume (5-day avg.)	Yield (%)	Chg. WTD	
<b>U.S.</b>				<b>Energy</b>				US Fed Fund Rate		
DJIA	16,743.63	0.16	15.66	NYMEX WTI	USD/bbl	102.49	186,925	0.25	0.00	
S&P 500	1,924.97	0.07	17.69	ICE Brent Oil	USD/bbl	108.90	178,539	3.25	0.00	
NASDAQ	4,237.20	(0.13)	33.98	NYMEX Natural Gas	USD/MMBtu	4.61	75,901	US Discount Window	0.75	0.00
MSCI US	1,840.88	0.08	18.08	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	72.95	N/A	US Treasury (1 Mth)	0.0304	(0.51)
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (5 Yr)		
FTSE 100	6,864.10	0.29	19.88	LME Aluminum Cash	USD/MT	1,816.50	23,789	1.5866	4.75	
DAX	9,950.12	0.07	18.45	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,850.00	39,015	US Treasury (10 Yr)	2.5213	4.54
CAC40	4,515.89	(0.08)	26.09	CMX Copper Active	USD/lb.	6,974.50	14,935	Japan 10-Yr Gov. Bond	0.5920	1.40
IBEX 35	10,827.40	0.27	22.82	LME Copper 3- mth Rolling Fwd.	USD/MT	6,932.50	33,465	China 10-Yr Gov. Bond	4.1400	(8.00)
FTSE MIB	21,796.17	0.77	275.5	TSI CFR China Iron Ore Fines Index <sup>3</sup>	USD	92.10	N/A	ECB Rate (Refinancing)	0.25	0.00
Stoxx 600	345.08	0.24	21.77	<b>Precious Metals</b>				1-Month LIBOR		
MSCI UK	2,025.63	0.26	19.73	CMX Gold	USD/T. oz	1,243.80	117,850	0.1510	0.00	
MSCI France	126.58	(0.09)	26.98	CMX Silver	USD/T. oz	18.80	41,532	3 Month LIBOR	0.2272	(0.03)
MSCI Germany	132.52	0.09	18.44	NYMEX Platinum	USD/T. oz	1,437.10	11,356	O/N SHIBOR	2.5700	4.00
MSCI Italy	62.99	0.86	247.2	<b>Agricultural Products</b>				1-mth SHIBOR		
<b>Asia</b>				CBOT Corn	USD/bu	463.50	124,833	3.8610	(20.8)	
NIKKEI 225	14,935.92	2.28	19.67	CBOT Wheat	USD/bu	621.50	51,744	3-mth HIBOR	0.3750	0.41
S&P/ASX 200	5,518.46	0.10	19.64	NYB-ICE Sugar	USD/lb.	17.18	60,281	Corporate Bonds (Moody's)		
HSI	23,081.70	0.50	10.86	CBOT Soybeans	USD/bu.	1,497.25	66,448	Aaa	4.16	(3.00)
HSCEI	10,249.70	1.27	7.48					Baa	4.70	(8.00)
CSI300	2,156.46	0.37	9.70							
SSE Composite	2,039.21	0.23	9.99							
SZSE Composite	1053.75	1.28	26.48							
MSCI China	60.46	19.58	9.23							
MSCI Hong Kong	12,530.80	1.08	12.41							
MSCI Japan	740.5	1.76	14.40							

Note:

1. Data sources: Bloomberg Finance LP, National Bureau of Statistics of China, ABCIS (updated on date of report)
2. Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey
3. TSI CFR China Iron Ore Fines Index is calculated with the 62% Fe specification, spot price

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-Mth
Spot Rate	1.3602	1.6748	0.9236	102.38	0.8985	6.2470	7.7536	6.2572
Chg. WTD (%)	(0.24)	(0.04)	(0.79)	(0.60)	(0.37)	0.00	(0.01)	(0.01)



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## Disclosures

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### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2009-2013

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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